EXHIBIT 51

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AMTRAK'S MONEY MYSTERY

by Bob Johnston

When the *Southwest Chief* rumbles across New Mexico's Raton Pass, with sleeping-car passengers paying as much as $1,058 to ride in a roomette, what is the train's revenue-versus-cost effect on Amtrak's bottom line?

According to the "route level results" of the fiscal 2017 performance report, the Chicago-Los Angeles train generated $49.9 million in revenue but racked up $104 million of so-called "operating" expenses. So the train "lost" more than $54 million? Really?

The expense burden has become Amtrak's justification for systemwide cost cutting. The company estimates those expenses at more than $1 billion for all long-distance trains, and $793.6 million for Northeast Corridor *Acela Express* and *Regional* trains running over multitrack, electrified infrastructure maintained to 125-to-160-mph standards.

The quest to stem the sources of red ink has been blessed by Amtrak's board of directors and orchestrated by CEO Richard Anderson and Executive Vice President and Chief Commercial Officer Stephen Gardner. It has led to sharply reduced food service on the *Lake Shore Limited*, *Capitol Limited*, and *Silver Star*; curtailed excursions and carriage of private cars; eliminated revenue-growth initiatives, other than ticketing penalty fees and periodic internet-based fare sales; and threatened the *Chief*'s future. Company officials told Kansas, Colorado, and New Mexico stakeholders in August that maintaining the *Chief* route will require $254.7 million over the next 10 years — on top of those annual losses.

Throughout Amtrak, short- and long-term management bonus incentives are tied to slashing expenses. This fails to take into account potential revenue lost from such cuts, and reduces passenger options. And cost cutting through 2017 management buyouts eliminated field personnel and resulted in a loss of institutional knowledge — perhaps the biggest such loss in the company's 47-year history — that has permanently diminished U.S. passenger-rail expertise.

As Trains was preparing this report, the Rail Passengers Association issued a white paper titled, "Amtrak's Route Accounting: Fatally Flawed, Misleading, and Wrong." On the following pages we highlight some of its findings — such as a snow-removal charge for a station in Florida. We also present examples we uncovered that attempt to shine a light on a bookkeeping system that distorts a nationwide transportation mission, a mission thousands of current and former employees fought to maintain. But be warned: exactly how Amtrak attributes expenses continues to be shrouded in mystery.

AMTRAK PERFORMANCE TRACKING

Following a Chicago luncheon on May 25, 2017, former Amtrak President and CEO Wick Moorman told Trains that long-distance trains “break even on direct costs.” But when Amtrak allocates overhead using a formula developed by the Volpe National Transportation Systems Center, he said, “based on rational types of things like passenger-miles and train starts, [they] end up with about a $500 million loss.” State-supported trains, he added, lose about $90 million on a fully allocated cost basis.

Moorman was referring to the “Amtrak Performance Tracking” methodology. It was developed at the request of Congress in 2005 to

definitively categorize the company's expenses, according to how and where they are incurred. The Volpe Center, an arm of the U.S. Department of Transportation, was chosen to construct clear assignments of revenues and costs to
replace Amtrak's previous system. That system failed to provide "reliable cost
accounting information
essential to making prudent business decisions," according to a 2013 U.S. DOT Inspector General's report.

ASSIGN OR ALLOCATE?

Amtrak flirted with bankruptcy earlier in the 2000s. In part, this was because in striving to achieve a "glide path to self-sufficiency," as then-President George Warrington promised, its reporting systems lost track of expenses and the money coming in to pay them. In theory,

choosing an independent entity like Volpe to devise an accounting system would help management keep the company solvent. It would also make a concerted effort to assign costs to the revenue-producing entities that incurred them. What happened, however, is that Volpe enlisted Amtrak's help. The multivolume blueprint of the system's methodology uses the term "professional judgment" to describe how rules were jointly developed by Volpe and Amtrak financial analysts to distribute company overhead expense. (Trains obtained a copy, in part through a Freedom of Information Act request.)

In that 2013 document, the Department of Transportation Inspector General determined that Amtrak Performance Tracking directly assigns 90 percent of its revenue to a given route, but "Amtrak assigns only 20 percent of its costs and allocates the rest." A 2016 report by the Government Accountability Office states, "Indirectly allocating a high percentage of costs, rather than directly assigning costs, increases the risk that revenues and expenses for a cost center or line of business will be misstated."

States had already begun to protest some decisions. Section 209 of 2008's Passenger Rail Investment and Improvement Act required operating authorities of short-distance trains to pick up a greater percentage of operating costs — as determined by Amtrak. [See "Passenger Train Game Changer," October 2013.] That's when David Kutrosky, managing director of California's Capitol Corridor Joint Powers Authority, discovered Amtrak was using a formula to allocate the cost of diesel fuel for his trains' locomotives rather than measuring it directly. In Maine, Northern New England Passenger Rail Authority

Executive Director Patricia Quinn saw equipment charges double, and questioned line items for unrelated Chicago activities.

"We're not getting credit for efficiencies," she told Trains in a September 2014 interview, adding, "We've committed to paying the costs of operating our services. The question remains how much of that overhead are we going to take responsibility for when we have no input." She had just spent two days in Washington, D.C., "with mediation trying to figure out how we are going to get to the point where the states are assuming an appropriate amount of cost."

BEHIND THE CURTAIN

Rather than collecting specific data that would clearly show what costs would disappear if, say, the *Southwest Chief* were eliminated —

"avoidable costs," in the parlance of Congress' 2005 directive — allocation protocols permit Amtrak to use measurements it already has or believes it can estimate. The resulting process has 60,000 allocation rules, with 1,600 "responsibility centers" grouped into nine similar "cost families" (for example, transportation operations), which are divided into 36 "subfamilies" (onboard service), and finally 44 "subcategories" (linen).

"Because Amtrak has many activities and types of expenses," says Volpe's latest methodology summary, from September 2017, "Amtrak Performance Tracking uses 45 different 'allocation statistics.'" These include:

- Passenger-miles
- Boarding or deboarding for individual stations and by trip length
- Number of first-class passengers
- Frequency of train trips
- Estimated diesel power and electric traction "usage factors"
- Talk time at reservation centers
- Labor hours
- Ticket revenue

Identifying these metrics provides a roadmap of how otherwise amalgamated costs, including over $1 billion in general and administrative expenses, are to be
assigned to each train or operation.

Volpe describes another rough estimation, "asset usage allocation," as a "synthetic" substitute for interest and depreciation. It is calculated by type of asset, such as a Viewliner or locomotive, and the amount shows

up as an expense charged against the route to which it is assigned. The expense is irrespective of costs incurred for overhauls and maintenance of fully depreciated rolling stock. The Volpe report claims this "provides a more representative measure of the resource cost of all capital equipment and property, regardless of how financed, currently used by Amtrak to produce various services and outputs." Alas, it's not a "real" expense, but an accounting device.

MISCALCULATION AND MYSTERY

Not covered by Amtrak Performance Tracking are Northeast Corridor track maintenance costs. Amtrak treats these as a capital expenditure rather than showing them as part of operating expenses. The Rail Passengers Association white paper uncovered the fact that in fiscal

2017, state-supported routes were charged $5.1 million and long-distance trains $5.6 million for track maintenance. Yet, because of this accounting treatment, *Acela Express* and *Northeast Regional*s chalk up less than $90,000 in such expenses. This, of course, aids the claim that those trains are profitable "above the rail."

Other questionable allocations or indefensible errors noted in the Passenger Association report include:

- Miami station expense included a portion for snow removal.
- A total of $3 million in electric-traction maintenance costs were assigned to non-Northeast Corridor routes.
- Charges ranged from $400,000 to $900,000 for moving different long-distance trains from New York's Penn Station to Sunnyside Yard in Queens.
- Yard and equipment charges for overnight servicing at Chicago ranged from $300,000 for the *Texas Eagle* to $1.8 million for the *California Zephyr*.
- All redcap labor and baggage handling costs are allocated to long-distance trains, according to trip length, even though wheelchair service and baggage handling are provided to all trains, especially at New York and Chicago.
- Connection revenue is not tracked, so if one train is discontinued, the company can't determine the resulting negative monetary impact on other services.

The Miami error was caught by the station manager there and revealed in the Government Accountability Office's 2016 report, and state operating authorities continue to comb invoices for questionable allocations. But exactly what expenses comprise that hefty long-

distance tab remain a mystery. In 2017, Amtrak sharply curtailed the amount of information publicly disclosed in its "Monthly Performance Report" (from 66 pages in August to 7 pages in September).

Trains asked Amtrak to itemize the costs allocated to the *Southwest Chief* — over and above running the train, paying the crew, and paying BNSF on-time performance incentives — that cause it to "lose" almost $55 million. In response, the company offered no numbers, only this statement:

"National assets are the nation's core rail assets shared among Amtrak services, including systems for reservations, security, training, training centers, and other assets associated with Amtrak's national transportation system. Corporate services are defined to include company-wide functions such as legal, finance, government affairs, human resources, information technology, among others. These resources play a vital role in ensuring that Amtrak can develop and consistently provide competitive products and services, as well as delivering investments that will sustain, improve, and grow our business."

So whatever amount the company decides to spend, the *Chief* and other routes are "charged" a portion based on performance tracking formulas, not whether the resources were deployed to actually benefit the services.

INCENTIVIZING CUTS

Controlling costs is important to every organization, and Amtrak has periodically reshuffled personnel and organization charts to make the company more efficient since its inception in 1971. But several years ago, the company began paying bonuses to managers who meet financial goals, largely based on trimming expenses.

“The new performance management process and Short-Term Incentive Plan reward employees based on their performance as it relates to our strategic plan,” former Executive Vice President and Chief Human Capital Officer Barry Melnkovic told the in-house Amtrak Ink publication in 2015. He also said, “If we aren’t driving alignment to our strategy, improving efficiency, reducing waste,

fostering innovation, and tapping into our employees' discretionary effort, then there is no need for the [Human Capital] function."

An employee who requests anonymity tells Trains, "If you meet the goals that the board gives you, in management you get a bonus based on the percentage your department makes in achieving the goal." The result, the person says, is that managers are working for their bonuses, "with marching orders to cut, cut, cut."

Such bonuses may reach to the top of management. Former Amtrak CEO Moorman and current CEO Anderson both publicly stated, and Amtrak documents confirm, that they came out of retirement to work without a salary. In April, Trains filed a Freedom of Information Act request asking for details of their total compensation, including bonuses. Amtrak documents received in mid-October revealed only that both men were eligible to receive up to $500,000 in annual bonuses, based on goals specified in written memoranda they agreed to with the Amtrak board of directors. Trains asked to see the bonus criteria as part of its request, but Amtrak had not responded by press time. Details from any subsequent Amtrak response will be reported on Trains "News Wire."

CORRUPTING THE MISSION

The emphasis on belt tightening is a response to the Amtrak Performance Tracking methodology, which in turn governs how much states pay to tap Amtrak resources to run trains. But recent developments have prompted an intervention by lawmakers from Kansas, Colorado, and New Mexico, who drafted funding legislation requiring Amtrak to keep the *Southwest Chief* running. They became involved because “America’s Railroad” was created to sustain and grow surface-transportation mobility options nationwide.

Amtrak’s accounting system and management priorities mitigate against that. If the *Chief* is discontinued, the non-direct corporate overhead assigned to it will be redistributed to other services,

increasing the costs for state-operated trains and forcing more expense on long-distance ledgers.

The performance-tracking system also plays into the continuing challenges previous Amtrak managements, boards, and Department of Transportation overseers have failed to address. The biggest is a long-overdue acquisition of new cars and locomotives. Performance Tracking’s inherent biases make the investment case hard to prove, with revenue and customer-usefulness benefits buried beneath massive overhead charges that would flow elsewhere as services are discontinued.

Misplaced priorities also affect growth of Amtrak’s existing business. Take Miami, where last May Brightline launched service from a new downtown complex. A centrally located station to be shared with commuter service Tri-Rail at Miami International Airport has

languished without Amtrak trains since it opened in 2015. The *Silver Star* and *Silver Meteor* still call at a facility miles from the center city, bereft of convenient rental-car or public-transportation connections. It is, however, near Amtrak's Hialeah maintenance facility. Moving to the new station would clearly produce a leap in customer convenience and revenue, but would introduce higher crew costs for a backup move from the existing yard. And, with more boardings, the station's corporate-allocated share of system costs would rise.

Under current directives, which provide no incentive for revenue gains (because the company's regional marketing positions have been eliminated), what Amtrak manager would advocate for the venue change?

The bottom line: management's no-growth priorities are a reality, but Amtrak Performance Tracking is the culprit facilitating them.